

September 2, 2003

Hand Delivered

Mr. Malcolm T. Kerley, P.E.
Chief Engineer for Development Program
Virginia Department of Transportation
1401 East Broad Street
Richmond, Virginia 23219

Re: Amendment to Conceptual Proposal for the Western
Extension of the Powhite Parkway Project

Dear Mal:

Enclosed you will find 20 copies of an amendment to our Conceptual Proposal for the Western Extension of the Powhite Parkway project in Chesterfield County, Virginia.

As you can see, the amendment only deals with the provisions of Section 3 of the proposal related to project financing. The amendments to the project financing description do not deal with the substance of the project financing, but merely with some of the detail related to the approach concerning the Richmond Expressway System aspect of the proposal.

We are submitting this amendment today in light of the fact that today, September 2, 2003, at close of business, is the conclusion of the period within which competition may occur with regard to this Public-Private Transportation Act proposal.

As you are aware, for competitive purposes the provisions of Section 3 of our proposal related to project financing had been treated as confidential through the period for submissions of competitive proposals.

As you can see, I am sending a copy of this amended project financing description to Robert M. Berry, General Manager of the Richmond Metropolitan Authority, to whom we also submitted the Powhite Parkway Western Extension Conceptual Proposal and who also have agreed to hold the provisions of Section 3 related to project financing confidential through the period for competition pursuant to the Public-Private Transportation Act.

We very much look forward to working with the Department as we proceed with the initial review committee and the Commonwealth Transportation Board and move towards the development of a detailed proposal.



Please let me know if you have any questions with regard to the amendment.
Best wishes.

~~Yours truly,~~



Michael E. Post
Manager
Powhite Parkway Partners, LLC

cc: Robert M. Berry (w/ enclosure)
General Manager
Richmond Metropolitan Authority

Project Financing

- 3a. *Provide a preliminary estimate and estimating methodology of the cost of the work by phase and/or segment (e.g. planning, design, construction).*

PPP has developed a Conceptual Plan of Finance that does not rely upon funds from VDOT, Chesterfield County, or the federal government to complete a critical, but unfunded transportation facility in Chesterfield County. Our Conceptual Plan of Finance does not rely on tax revenue but contemplates the issuance of approximately \$586 million in toll revenue bonds in two tranches to complete the project. This plan of finance was developed in consultation with Lehman Brothers and is structured to meet current financial market requirements for similar toll road projects.

After the Comprehensive Agreement is executed, PPP proposes to create a non-profit special purpose entity that would refinance the Richmond Metropolitan Authority's three existing toll facilities, the Downtown Expressway, the Powhite Parkway, and the Boulevard Bridge (the "Richmond Expressway System") and issue sufficient debt to defease the existing debt on the VDOT Powhite, repay VDOT the accrued Interfund Balances, and repay Chesterfield County for its contribution to the VDOT Powhite. In return, VDOT, as part of the Comprehensive Agreement would grant PPP a concession to collect tolls on the regional tollroad system.

PPP would transfer its concession rights under the Comprehensive Agreement to the non-profit entity to facilitate a tax-exempt financing. In return, PPP will enter into a contract to develop, design and construct the Western Extension. At VDOT's option, Cofiroute would enter into a management agreement to operate the consolidated system.

A major benefit of our proposed plan is that the combination of these highway assets will provide an opportunity for the Commonwealth, the City of Richmond and Chesterfield County to develop and implement a single cohesive plan for the region's user fee based highway system. We believe the combined system could achieve significant operating efficiencies, including the potential for integrated toll-setting, collection and enforcement systems, as well as interoperable technology. Furthermore, a system-based financial structure will provide substantially lower-cost financing for the development of the Western Extension than would be available under a stand-alone project finance structure. Essentially, the proposed "regional toll system" governed by representatives from the City of Richmond, Chesterfield County, and VDOT could provide the platform for integrated, efficient planning and management of the region's tolled highways.

The Conceptual Plan of Finance calls for the non-profit entity issuing tax-exempt toll revenue bonds in two tranches to accomplish the five objectives of this proposal.

- Refinance the Richmond Expressway System
- Remove VDOT's, the City of Richmond's, and the RMA's ongoing financial risk by retiring or defeasing the existing toll revenue bonds;
- Repay the notes and interfund balances owed to the City of Richmond, the VDOT Toll Facilities Revolving Fund, and Chesterfield County releasing these parties from any subordinate debt obligations, and providing much needed cash to address other needs.

- Fund the planning, environmental work, engineering, design and construction of the Western Extension.
- Efficiently operate the regional system for the term of the concession.

We believe that one of the strengths of this approach is that the Western Extension will be viewed as an extension of the existing system that can demonstrate a positive usage pattern, cash flows, and over 25 years of operating history, a factor which would differentiate the consolidated system debt from debt issued to finance a "stand-alone" toll road project. System debt has traditionally received a more favorable reception by the financial markets.

Based upon our review of the RMA's June 2002 Comprehensive Annual Financial Report and VDOT's June 30, 2001 Financial Report, we have estimated that the total outstanding debt and notes for the existing toll roads are approximately \$300 million. Table 3.1 sets forth the amounts to be repaid that were used in the development of the Conceptual Plan of Finance.

Table 3.1 Outstanding Debt and Notes

Description	Amount
RMA Toll Revenue Bonds	\$140,818,000
VDOT Toll Revenue Bonds	\$56,585,000
Chesterfield County Notes	\$8,000,000
RMA Subordinated Notes plus Accrued Interest	\$50,168,000
VDOT Interfund Balances	\$45,454,000
Total	\$301,025,000

These numbers will change as annual debt payments are made and interest accrues due to the passage of time. As a result, PPP will update these numbers during the Detailed Proposal Phase and, again, prior to the actual issuance of the 1st tranche of new toll revenue bonds.

Although we have performed preliminary due diligence based on publicly available information, PPP has not reviewed all the underlying bond documents and agreements for each of these obligations. Our assumption is that there are no extraordinary provisions or tax consequences that would prohibit the proposed refinancing and consolidation. These issues will be fully researched, identified and addressed as part of the Detailed Proposal Phase.

PPP's preliminary estimate of the cost of the Western Extension is based on a review of the existing alignment which has been adopted by Chesterfield County in its County Thoroughfare Plan. While additional work needs to be done to identify the various environmental, traffic, engineering, and construction issues associated with this alignment, two members of PPP's project team, EarthTech and Timmons Group, have worked closely with the County in the identification and adoption of this alignment. This background and familiarity with the Western Extension provides valuable insight into the challenges and needs of the alignment that was important in developing preliminary estimates.

Our conceptual budget for the Western Extension of the Powhite Parkway is \$187,400,000. It is based upon currently available information for the Western Extension as well as PPP's knowledge and experience of the costs associated with the design and construction of projects of similar scope and complexity. This estimate includes all planning, development management, environmental, permitting, design, construction, and construction management for the Project.

Table 3.2 Conceptual Budget

Category	Amount
Development Management & Construction	\$160,600,000
Allowances (Right-of-Way/Utilities, etc.)	\$5,070,000
Engineering & Design	\$21,730,000
Total Cost	<u>\$187,400,000</u>

The conceptual costs will be further refined during the Detailed Proposal Phase. Additional information and support for these numbers will be provided to VDOT in our Detailed Proposal and during the negotiation of the Comprehensive Agreement.

A brief discussion of how PPP developed the conceptual budget is presented below.

- **Development Management & Construction.** This category includes the construction and development costs associated with both phases of the Project. These estimates include development and project management, legal expenses, and the necessary traffic and revenue studies required to support the proposed financings.

Our construction budget is based on information provided by EarthTech, Austin Brockenbrough & Associates and Timmons Group. This information has been developed as a result of these firms familiarity with VDOT and AASHTO design standards and the specific corridor. Shirley Contracting Company developed preliminary quantity takeoffs based upon this information. The construction estimates are based on these takeoffs.

Included in the construction budget is an estimate for toll technology. This item includes the cost of integration of the existing systems as well as the construction of the necessary toll facilities and equipment on the Western Extension. The estimate also includes installation of an electronic toll system on the Western Extension that is compatible with the existing electronic system in place on the Richmond Expressway System and the VDOT Powhite. During the Detailed Proposal Phase, Cofiroute Global Mobility will evaluate the two existing systems, make estimates of necessary upgrades to improve customer acceptance, and provide a more specific estimate of the cost for this item.

- **Allowances.** PPP proposes that right-of-way acquisition for the project be addressed as an allowance. The allowance is based upon the right-of-way that has already been proffered to the county for the Western Extension and an estimate developed by Timmons Group of the additional right-of-way that will be needed.

Timmons' estimates that an additional 200 acres at \$20,000 per acre will be needed.

It is the intent of PPP to acquire all right-of-way in VDOT's name and following VDOT's guidelines for right-of-way acquisition. Even though most of the land is currently undeveloped with few structures, we have added a contingency to our right-of-way budget to cover the requisite appraisals, any unforeseen relocations, and potential condemnations. We anticipate refining all right-of-way acquisition estimates during the Detailed Proposal Phase.

Also included in these budgets are the allowances and estimates for utility relocation and environmental land banking. These estimates have been made based upon members of the project team's knowledge gained from previous work in the corridor. We anticipate refining these allowances during the Detailed Proposal Phase.

- **Engineering and Design Services.** This category includes all engineering services normally required on a VDOT roadway project. These services include environmental and preliminary engineering, structural and roadway design, survey and mapping, and construction engineering and inspection. We have also included in this category the cost of evaluating the existing condition of the existing toll facilities and designing an appropriate toll collection system.

The Project Team expects that VDOT will require an independent review of all budget numbers. This review will provide VDOT, the City of Richmond, Chesterfield County and the public assurances that the Project's budget is reasonable given the nature and risk associated with it. The Project Team supports and encourages this participation.

The PPP team envisions being a true at-risk partner in the development and construction of the Project. As developers with Virginia PPTA experience, we know from experience that substantial private sector funds will be required to develop the Project and progress to the execution of the Comprehensive Agreement. In addition to the at-risk development costs of the project, PPP will also be accepting project cost risks including cost overruns and price escalation. While it is difficult to place a dollar value on these risks at this point in the process, our previous PPTA experience has shown that the cost of these risks will be substantial.

3b. Submit a plan for the development, financing, and operation of the project, showing: the anticipated schedule on which funds will be required; and proposed sources and uses for such funds.

The initial development plan assumes that the Comprehensive Agreement for the Project will be executed by January 1, 2004. The Comprehensive Agreement will include:

- The right to refinance the Richmond Expressway System and the existing VDOT Powhite .
- A Design-Build contract for the Western Extension.

- A concession for the right to collect tolls. The concession will need to comply with the applicable Internal Revenue Service Regulations and rules governing such arrangements.

Our schedule anticipates the necessary agreements to effectuate the consolidation of the Richmond Expressway System and the VDOT Powhite will be concluded and the 1st tranche of financing will be issued by July of 2004.

Upon completion of the 1st tranche of financing, PPP would immediately begin the necessary planning, environmental studies, engineering, and pre-construction work necessary for the Western Extension. The critical path item that will drive this schedule is the time required to obtain all necessary environmental clearances and permits.

PPP also anticipates preparing documentation for the 2nd tranche financing while these studies are underway. As a result it is anticipated that the 2nd tranche will be issued once environmental permits are obtained. The current schedule assumes that environmental permitting will be completed 18 months after the 1st tranche of financing is complete. As a result it is currently projected that the 2nd tranche will be completed in January 2006, at which time a notice to proceed for design and construction on the Western Extension will be issued.

Upon the issuance of the notice to proceed for the Western Extension, PPP will complete the Project pursuant to a design-build delivery method. The current schedule anticipates that the Western Extension will be open for traffic 36 months after issuance of a notice to proceed.

In summary, the major milestones for the Project are listed below:

1. **January 2004:** Execution of a Comprehensive Agreement.
2. **July 2004:** Issuance of 1st Tranche of debt and refinance the Richmond Expressway System and the VDOT Powhite.
3. **January 2006:** Issuance of the 2nd Tranche of debt and a notice to proceed with the Western Extension.
4. **January 2009:** Western Extension opened for traffic.

As we proceed through the various phases of the Project we will be looking for ways that can reduce the schedule and open the Western Extension to traffic earlier than January 2009.

Funding for the Project can be broken into four distinct periods: Pre-Comprehensive Agreement, Refinancing, Environmental and Preliminary Engineering, and Design/Build.

- **Pre-Comprehensive Agreement.** During this period it is anticipated that PPP will work at-risk to develop the Project. It is anticipated that these costs will be borne by PPP.
- **Refinancing** This period lasts from the time that the Comprehensive Agreement is executed until the 1st tranche of debt is issued. PPP anticipates negotiating the necessary agreements, managing the process, conducting the required studies to support the 1st tranche of financing, and organizing the non-profit corporation.

- **Planning, Environmental and Preliminary Engineering.** This period comprises the projected eighteen months between the two bond issues during which all environmental and preliminary engineering work necessary will be conducted. Funding for this period will come either from proceeds of the 1st tranche or from operations of the consolidated toll road system.
- **Design/Build.** Immediately after the issuance of the second tranche, a notice to proceed for the design/build contract of the Western Extension will be issued. This period will include all design and construction work necessary to deliver a completed toll road to VDOT, Chesterfield County and the citizens of the Commonwealth. This period includes final design, acquisition of all necessary right-of-way, roadway construction, and installation and testing of the toll equipment. The current estimate is that it will take 36 months to complete and open the roadway.

As indicated in our response to Question 3.a above, the Conceptual Plan of Finance for the 1st tranche is based on publicly available information on both the Richmond Expressway System and the VDOT Powhite. During the Detailed Proposal Phase and prior to issuance of the 1st tranche, PPP will review the underlying documentation for the existing debt and confirm the legal structure of the consolidation.

Table 3.3 sets forth the Conceptual Plan of Finance for the 1st tranche.

Table 3.3 Conceptual Plan of Finance – 1st Tranche

<i>Sources of Funds</i>	
Current Interest Bonds	\$225,700,000
Capital Appreciation Bonds	\$167,700,000
Investment Earnings	\$2,000,000
<i>Total Sources</i>	<u>\$395,400,000</u>
<i>Uses of Funds</i>	
RMA Revenue Bonds	\$140,800,000
VDOT Revenue Bonds	\$56,600,000
Chesterfield County Notes Payable	\$8,000,000
RMA Subordinated Notes	\$50,200,000
VDOT Interfund Balances	\$45,500,000
Project Costs	\$16,200,000
Issuance Costs	\$11,800,000
Capitalized Interest	\$0
Debt Service Reserve Fund	\$39,400,000
Project Contingency	\$26,900,000
<i>Total Uses</i>	<u>\$395,400,000</u>

A brief discussion of each of the line items listed above follows:

- **Sources of Funds:** The Conceptual Plan of Finance is based upon the issuance of both Current Interest Bonds and Capital Appreciation Bonds. These bonds are assumed to be tax-exempt toll revenue bonds, secured by a first lien on the

aggregate toll revenue net of operations but before maintenance, on the Downtown Expressway System and the VDOT Powhite. Based upon current market conditions we have sized these bonds using rates of 6.00% and 6.75% respectively, with a coverage ratio of 1.7x debt service. No allowance has been made in these rates and coverages for various forms of credit enhancements which PPP will investigate prior to the issuance of bonds. Investment Earnings reflects the expected earnings on bond proceeds designated to fund the Western Extension. These funds are assumed to be invested at 4.00%.

It should be noted that the toll revenue used to support this issuance incorporates increased traffic arising from the Western Extension. During the Detailed Proposal Phase we intend to test the sensitivity of the 1st tranche of bonds to the various traffic levels on the Western Extension. These sensitivity tests will include an analysis of coverage ratios without the Western Extension.

- **RMA Revenue Bonds.** Outstanding balance as of June 30, 2002 as reported in the *Richmond Metropolitan Authority's Comprehensive Annual Financial Report, Richmond, Virginia, June 2002*.
- **VDOT Revenue Bonds.** Outstanding balance as of June 30, 2001 as reported in the *Virginia Department of Transportation Financial Report, June 30, 2001*.
- **Chesterfield County Notes Payable.** Per the *Virginia Department of Transportation Financial Report, June 30, 2001* these are notes that were issued during the construction of the VDOT Powhite and are still outstanding.
- **RMA Subordinated Notes.** Outstanding balance, including accrued interest, as of June 30, 2002 as reported in the *Richmond Metropolitan Authority's Comprehensive Annual Financial Report, Richmond, Virginia, June 2002*.
- **VDOT Interfund Account.** Outstanding balance as of June 30, 2001 as reported in the *Virginia Department of Transportation Financial Report, June 30, 2001*.
- **Project Costs.** Planning, development, environmental, and preliminary engineering costs for the Western Extension.
- **Issuance Costs.** Includes estimates of underwriter's discounts, bond counsel, underwriter's counsel, rating agency fees, printing costs, etc. associated with the issuance of public debt. Estimated at 3% of total debt offering.
- **Capitalized Interest.** This category is zero since the 1st tranche involves the consolidation of existing toll road operations.
- **Debt Service Reserve Fund.** Currently estimated at 10% of principal amount of bonds.
- **Project Contingency.** This line item represents unallocated bonding capacity that can be used to fund project costs or outstanding debt balances. This line item is also used as a source of funds for the 2nd tranche and all or a portion may be financed as part of that tranche. Which tranche of debt that this amount will be included in is an empirical question that will be resolved based upon the conditions existing when the 1st tranche is issued.

The plan to refinance the Richmond Expressway System and the VDOT Powhite is based on our review of public documents. We have not fully investigated all the potential tax, legal and financial issues that will need to be addressed in order for the Project to move forward. These issues will be more fully explored as part of the Detailed Proposal Phase.

In addition, our assessment of the initial bonding capacity is based on conceptual revenue projections. These projections are based upon work done by the RMA's toll revenue consultant. PPP has not undertaken a complete study of future toll revenues. We anticipate conducting a preliminary traffic and revenue study during the Detailed Proposal Phase, followed by a full "investment grade" traffic and revenue study after the Comprehensive Agreement is executed, but prior to the issuance of the 1st tranche of debt.

The 2nd tranche of bonds will be issued to finance the final design and construction of the Western Extension. While the current schedule envisions an eighteen month period between the issuance of the two tranches, the actual timing of the 2nd tranche will be dependent upon the time necessary to complete the required environmental reports and obtain the prerequisite permits. During this time, a separate traffic and revenue study for the Western Extension will be conducted. The Conceptual Plan of Finance envisions that this work will be funded out of proceeds of the first tranche.

Once the environmental and preliminary engineering work is completed, the 2nd tranche of debt will be issued. Table 3.4 sets forth the Conceptual Plan of Finance for the 2nd tranche.

Table 3.4 Conceptual Plan of Finance – 2nd Tranche

<i>Sources of Funds</i>	
Current Interest Bonds	\$90,300,000
Capital Appreciation Bonds	\$59,200,000
Other (See description below)	\$28,000,000
Investment Earnings	\$13,100,000
<i>Total Sources</i>	<u>\$190,600,000</u>
<i>Uses of Funds</i>	
Project Costs	\$171,200,000
Issuance Costs	\$4,500,000
Capitalized Interest	\$0
Debt Service Reserve Fund	\$14,900,000
<i>Total Uses</i>	<u>\$190,600,000</u>

The Conceptual Plan of Finance for the 2nd tranche is based upon the estimated costs for the Western Extension discussed in our response to Question 3.a above. Prior to the issuance of the 2nd tranche these cost estimates will be finalized.

The Conceptual Plan of Finance for the 2nd tranche is based on revenues calculated by Vollmer & Associates in a conceptual traffic and revenue study. A preliminary traffic and revenue study for the Western Extension will be conducted during the detailed Proposal Phase. The final "investment grade" traffic and revenue study to support this bond issue will not be conducted until just before the expected issuance date.

A brief discussion of each of the line items listed above follows:

- **Sources of Funds:** The Conceptual Plan of Finance is based upon the issuance of both Current Interest Bonds and Capital Appreciation Bonds. These bonds are

issued as tax-exempt toll revenue bonds at parity with the 1st tranche of bonds and secured by net revenue of the entire regional system. Based upon current market conditions we have sized these bonds using rates of 6.00% and 6.75% respectively, with a minimum coverage ratio of 1.7x debt service.

The Conceptual Plan of Finance assumes that the Contingency funds available from the 1st Tranche can be used, either directly or indirectly, as a source to help fund the Western Extension. In addition, the Conceptual Plan of Finance assumes that Chesterfield County contributes approximately \$1 million via a cash proffer to improve the roadways in the area of the Western Extension. We anticipate that Chesterfield County will contribute this proffer to the project. These sources totaling \$26.9 million, are shown in the line item "Other" on Table 3.4 above

Investment Earnings reflect the expected earnings on bond proceeds designated to fund the final design and construction. These funds are assumed to be invested at 4.00%.

- **Project Costs.** The expected cost to finish the final design and construction of the Western Extension.
- **Issuance Costs.** Includes estimates of underwriter's discounts, bond counsel, underwriter's counsel, rating agency fees, printing costs, etc. associated with the issuance of public debt. Estimated at 3% of total debt offering.
- **Capitalized Interest.** This category is zero based upon the assumption that net revenue of the combined tollroad system will be used to pay interest during construction of the Western Extension.
- **Debt Service Reserve Fund.** Currently estimated at 10% of principal amount of bonds.

3c. Include a list and discussion of assumptions (user fees or toll rates, and usage of the facility) underlying all major elements of the financial plan.

The Conceptual Plan of Finance is based on traffic, revenue, and operational assumptions for each of the three major components of the Project. The assumptions for the two existing components are based upon historical and publicly available information. The assumptions for the Western Extension are based upon preliminary work performed by our traffic and revenue consultant, Vollmer & Associates.

Richmond Expressway System

- **Toll Revenues.** The Conceptual Plan of Finance incorporates publicly available projections for the Downtown Expressway System. For the years 2005 through 2007 the revenue projections were done by the RMA's Traffic and Revenue Consultant and are contained in the *Official Statement for the RMA's Expressway Revenue and Refunding Bonds, Series 2002, dated April 15, 2002*.

The RMA's *2000 Annual Report: Traffic and Revenue, December 2000*, indicates that for the ten year period ending in 2000, toll revenue on the Richmond Expressway System increased at an annual rate of 4.3%. This same report calculated that revenues over the five-year period ending in 2000 increased at 7.1% annually. Tempering these growth rates are the relatively flat near term projections contained in the official statement cited above.

Lacking a more formal traffic and revenue study, we have assumed a baseline growth rate of 3%. This increase in revenues reflects several factors including changing regional demographics, population growth, shifting commuting patterns, and periodic unit toll increases. The baseline growth rate was applied for years 2008 through 2030. Toll revenue for future years was increased at the assumed rate of inflation in operating expenses, 1.5% per year.

In addition to the baseline growth rate discussed above, we also attempted to factor in the impact of the Western Extension on the revenues of the regional toll road system. The existence of the Western Extension would not have been factored into any historical revenue model for the RMA. In order to capture this impact, we have added an additional growth factor of 3% for the first ten years of operation of the Western Extension, 2010 through 2019.

- **Operational Expenses.** Similar to the RMA's Traffic and Revenue Assumptions, operational expenses for 2005 through 2007 are based on projections contained within the Official Statement for the RMA's Expressway Revenue and Refunding Bonds, Series 2002. Future years were assumed to increase at an annual rate of 1.5% that reflects planned efficiencies from a regional operation.

VDOT Powhite

- **Toll Revenue.** The Conceptual Plan of Finance utilizes year ending June 30, 2001 actual traffic and revenue results to estimate base year 2005. The year ending June 30, 2001 results were obtained from the Virginia Department of Transportation Financial Report, June 30, 2001. The actual 2001 revenues were carried forward without recognizing any intervening year growth factors.

Toll revenue for the VDOT Powhite is projected to grow under the same assumptions utilized for the Richmond Expressway System: a baseline 3% annual growth rate through 2030, with an additional 3% annual growth factor for the first ten years of operation for the Western Extension. Toll revenue for future years was increased at the assumed rate of inflation in operating expenses, 1.5% per year.

- **Operational Expenses.** Operational expenses are based upon the operational expenses contained within the Virginia Department of Transportation Financial Report, June 30 2001. These expenses were increased at an annual rate of 1.5%.

Western Extension

- **Toll Revenue.** PPP's traffic and revenue consultant, Vollmer & Associates has assumed a single main line toll plaza located west of the interchange with Route 288. Our revenue projections assume a reasonable protection from the construction of future competing roadways, except those that are currently planned and improvements to address public safety issues. For the opening year, our conceptual estimates are that average daily traffic (ADT) will equal approximately 6,600 vehicles at a toll rate of \$1.00.
- **Operational Expenses.** For purposes of the Conceptual Plan of Finance, it is assumed that operational expenses for the Western Extension are equal to 10% of gross revenues. Under this proposal the operation of the Western Extension is a

marginal cost to the consolidated Richmond Expressway System and VDOT Powhite.

The Conceptual Plan of Finance assumes that normal maintenance will continue to be performed by VDOT, subject to reimbursement from excess toll revenues. Further, we are assuming that the Project will fund, on a subordinated basis, a renewal and replacement account to provide capital to undertake long-term maintenance of the system.

During the Detailed Proposal Phase, Vollmer & Associates will prepare a preliminary traffic and revenue study for the Richmond Expressway System, the VDOT Powhite, and the Western Extension; Cofiroute Global Mobility will prepare operational estimates for the Project as a consolidated entity; and the construction and engineering members of the team will develop renewal and replacement estimates.

The Conceptual Plan of Finance also assumes that the both series of bonds will be structured with rate covenants, non-compete clauses, call provisions, and other covenants that are normal and customary for toll revenue financings.

3d. Identify the proposed risk factors and methods for dealing with these factors. All risks, financial or otherwise, shall be clearly specified including risks for which VDOT is expected to guarantee or otherwise assume.

The Project does not require any VDOT funding other than what is discussed in Section 3.e below. The following is a list of significant risks PPP anticipates will have to be addressed. In each case, we have developed an approach to mitigating these risks.

- (a) **Financial Markets.** The Conceptual Plan of Finance contemplates the issuance of approximately \$586 million of toll revenue bonds. Given credit difficulties experienced at recently opened tollroads, investor demand for new toll road debt has been dampened resulting in widened “credit spreads” versus higher-rated municipal debt. The resultant higher yields are reflected in our Conceptual Plan of Finance. Mitigating a risk of further credit spread widening is the fact that the first tranche of debt is to be issued to finance a consolidation of an existing toll road system with existing usage patterns. The second bond issue would then fund an extension of an existing system, a factor which differentiates debt for an existing regional toll road from debt issued to finance “stand-alone” projects. System debt has traditionally received a more favorable reception by the financial markets.
- (b) **Legal and Tax.** At this stage PPP has only performed initial due diligence of the enabling legislation and not the legal documentation underlying the establishment of the RMA and the VDOT Powhite, or the various documents associated with the outstanding toll revenue debt. While we are confident our concept is valid, additional due diligence will need to be undertaken to identify and address all legal and tax issues prior to the Project moving forward. We have been in touch with various law firms with experience in addressing the various issues involved and expect to provide a more detailed analysis of these issues as part of the Detailed Proposal.
- (c) **Legislative.** This Proposal is being submitted pursuant to the Public Private Transportation Act of 1995, as amended. At this time the Project Team does not envision any need for additional legislative action in order for the Project to be viable.

- (d) **Ridership and Revenue.** It is anticipated that the Project will be financed using toll revenue bonds. As such, the debt will not be an obligation of the Commonwealth or any of its political subdivisions. As a result, the purchasers of the toll revenue bonds assume ridership and revenue risks. However, by operating the Project as a regional toll road system, the historical ridership patterns on the Richmond Expressway System and the VDOT Powhite will help mitigate the ridership and revenue risks typically associated with a start-up toll road.
- (e) **Synergistic Effect.** The Project is predicated upon the assumption that operating the Richmond Expressway System, the VDOT Powhite, and the Western Extension as a regional system will optimize performance, both in terms of revenue and expenses. During the Detailed Proposal Phase, we will measure the sensitivity of these factors to overall financial feasibility of the Project. Changes in these assumptions could result in changes to the size and timing of each series of bonds
- (f) **Technology.** It is the intent of PPP to operate all three toll roads as a single regional system. It is also our intent to maximize the usage of electronic toll collection. This will require installing an electronic toll system on the Western Extension and integrating this new system with the two existing electronic toll collection systems. While the electronic toll industry has made significant strides over the last few years, this Project does involve the integration of technology and a certain amount of interoperability risk always exists. In order to help mitigate this risk, our Project Team includes Cofiroute Global Mobility, the international leader in the operation of toll roads and specifically electronic toll collections systems. Instead of relying upon vendors, integrators, or consultants to lead these efforts, PPP has taken the approach that the entity ultimately responsible for operating the system should take the lead.
- (g) **Condition of Existing Roadway.** The PPP Team has not performed an evaluation of the physical condition of either the Richmond Expressway System or the VDOT Powhite. Since these two roadways have been open for a number of years, there is a risk that capital will be needed to rehabilitate the roadways. The plan of finance contemplates the establishment of a renewal and replacement fund for such expenditures that can be utilized for needed rehabilitation when identified. PPP will evaluate the condition of these two roadways and develop a capital maintenance and improvement program for each.
- (h) **Project Cost.** At this stage the budgets that have been prepared for the Project are based on limited information. Prior to financing the second tranche, it is the intent of PPP to undertake sufficient engineering and design work to validate our estimate for the design and construction of the Western Extension.
- (i) **Project Completion.** The 2nd tranche of financing will be predicated upon the Western Extension being open for traffic and toll collection by a specific date. PPP will provide a guaranteed completion date prior to the issuance of the second tranche of debt to finance the Western Extension. The Project Team is prepared to backstop this guaranteed completion date with liquidated damages for late completion in return for an early completion bonus.
- (j) **Right-of-Way and Utility Relocation.** The Western Extension is on a new alignment requiring the acquisition of new right-of-way and the potential relocation of existing utilities. Our budgets include an allowance for each of these expenses. VDOT will be responsible to cover costs in excess of these allowances.
- (k) **Federal Funds.** The Conceptual Plan of Finance does not rely upon federal funding. The environmental and permitting plan and schedule are predicated upon this assumption and a full federal environmental impact statement is not part of the schedule. Should federal funds, specifically in the form of a loan pursuant to the

Transportation Infrastructure Finance and Innovation Act be required, a full federal environmental review will be needed. This could add costs to the Project budget and result in delays to the current schedule.

- (1) **Permitting and Environmental.** Since the Conceptual Plan of Finance does not require any federal funding, the Project Team is expecting to conduct an on-site assessment/Environmental Overview under the State Environmental Review process in accordance with the National Environmental Policy. This Environmental Review will support both the project location decision and the Section 404(b)(1) alternative analysis that will be required for permit approvals by the U.S. Army Corps of Engineers. We anticipate that this evaluation will only be needed on the Western Extension. Based upon PPP's experience and background with the Western Extension, we do not foresee any environmental conditions which would result in any extraordinary or unexpected permitting or mitigation requirements. Should such conditions arise, PPP, along with VDOT will need to evaluate their impact on the Project.

3e. Identify any local, state or federal resources that the proposer contemplates requesting for the project. Describe the total commitment (financial, services, property, etc.), if any, expected from governmental sources; and the timing of any anticipated commitment.

The Conceptual Plan of Finance for the Project currently does not require a monetary contribution from VDOT, Chesterfield County the City of Richmond, or the federal government. However, we would request the opportunity to utilize any future allocations, contributions or funds that may be made available to be included in the financing should they materialize.

Allowances for specific project items have also been established. Right-of-way acquisition, utility relocations and environmental land banking have been designated as allowance items. These allowance items are contained within our budget. Allowance items are driven by factors that are outside the control of PPP. Our proposal includes specific, educated allowances, but we request that VDOT be responsible for any costs above the allowances. It is our intent to work with VDOT to ensure that the allowances are set at reasonable levels in order to minimize the use of any public funds.

While much of the right-of-way for the Western Extension has been proffered to Chesterfield County, we will still need to acquire some new right-of-way. As a result this Conceptual Proposal assumes that all of the right-of-way is acquired in the name of VDOT, and that VDOT will use its eminent domain powers when necessary.

Our Proposal is based upon the assumption that both VDOT and the County will provide sufficient oversight of the design and construction to confirm that the Western Extension is designed and constructed to existing VDOT and AASHTO standards. We also expect that VDOT, the City of Richmond, and the County will want to be represented on the Board of Directors of the non-profit corporation to ensure the efficient operation of the Project. This involvement is similar to VDOT's role on its existing PPTA projects and, in our view, appropriate to engender public confidence in the process.

In addition, the conceptual plan of finance contemplates that VDOT will continue to provide routine maintenance for the Richmond Expressway System, the VDOT Powhite, and when completed, the Western Extension. This maintenance will be repaid to VDOT from excess toll revenues as available. These repayments will be subordinated to the

payment of direct operational expenses, debt service, and the funding of a renewal and replacement fund. As part of the Detailed Proposal phase of this procurement, we will make a more detailed evaluation of the ongoing maintenance requirements of the Project.